

BILL # SB 1043

TITLE: municipal business location incentives; rebate

SPONSOR: Harper

STATUS: As Amended by Senate Finance

REQUESTED BY: Senate

PREPARED BY: Brian Schmitz

FISCAL ANALYSIS

Description

This bill would require any city that provides a tax incentive to a retail business that locates a facility in the city to pay an amount equivalent to the tax incentive to the Department of Commerce. The only exception to this requirement would be in cases involving redevelopment areas. The bill would become effective in FY 2005.

Estimated Impact

There would likely be no additional funding to the Department of Commerce from this bill. Since the bill would double the cost of a tax incentive, it is likely that cities would stop offering these incentives to businesses. In the event that a city does choose to provide a tax incentive, the Department of Revenue would be responsible for conducting an audit to determine the value of the tax incentive. This could add an administrative cost to the Department of Revenue.

If the bill discourages businesses from coming to Arizona, there would be a foregone revenue loss for the state. In other words, if a firm would have come to this state were it offered a municipal tax incentive, but would no longer relocate to Arizona without such an incentive, there would be a cost to the state in terms of foregone tax revenue. However, this type of behavioral response is very difficult to measure.

If a business has already decided to expand or relocate its activities in Arizona, a municipal tax incentive may only serve to determine the specific location of the business. In that circumstance, there would be no foregone revenue loss at the state level from this bill.

Analysis

Cities and towns currently provide tax incentives to retail businesses as a means to entice those businesses to locate within their borders. The competition between municipalities to land businesses can result in the granting of tax incentives as cities vie with one another. This bill would probably reduce or eliminate this practice by doubling the cost of providing a tax incentive. Any city that gives a tax incentive to a retail business would also have to pay an equal amount to the state's Department of Commerce. According to a representative of the League of Arizona Cities and Towns, the bill would significantly reduce the number of municipal tax incentives. The level of incentives will ultimately depend on whether the economic impact of a new business is sizable enough to justify the effective doubling of their cost of the incentives.

Under current practice, cities typically offer businesses an abatement of city sales tax as an incentive to locate in that city. For example, Scottsdale gave a \$7.5 million incentive to a car dealership to build on the Scottsdale side of Scottsdale Road. Chandler offered \$41 million to have Chandler Fashion Center built. Phoenix gave a business a \$12.7 million tax incentive to build auto dealerships on the Phoenix side of Scottsdale Road.

Local Government Impact

This bill would have the probable effect of putting an end to the current municipal practice of providing tax incentives to lure retail businesses. Cities that have deemed it necessary to give tax incentives in order to compete for businesses would now have to find other ways to attract commerce. Some cities may have a more difficult time attracting businesses without the lure of a tax incentive, which would work to the benefit of other cities. As a result, some localities may experience a foregone revenue loss if they lose a business to another community.